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Message Text

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PAGE 01 COPENH 04776 120855Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 SP-02 STR-04 TRSE-00 LAB-04
SIL-01 OMB-01 EA-07 IO-13 NEA-10 USIA-06 OPIC-03
AGRE-00 SS-15 PA-01 PRS-01 /105 W
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R 111546Z AUG 77
FM AMEMBASSY COPENHAGEN
TO SECSTATE WASHDC 4921
INFO AMEMBASSY BRUSSELS
AMEMBASSY HELSINKI
AMEMBASSY OSLO
AMEMBASSY PARIS
AMEMBASSY REYKJAVIK
AMEMBASSY STOCKHOLM

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USEEC

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E.O. 11652: N/A
TAGS: EFIN, ECON, DA
SUBJECT: INTERVIEW WITH CENTRAL BANK GOVERNOR

REFS: A. COPENHAGEN 4461 B. COPENHAGEN 4594 (NOTAL)

BEGIN UNCLASSIFIED

SUMMARY: CENTRAL BANK GOVERNOR ERIK HOFFMEYER IN PRESS INTERVIEW AUGUST 10 CALLED FOR WAGE-EARNER ACCEPTANCE OF LONG-TERM INCOMES POLICY AS ONLY MEANS TO REDUCE UNEMPLOYMENT; HE ENDORSED GOVERNMENT PROGRAM OF FISCAL RESTRAINT AS NECESSARY TO PRESERVE DANISH CREDITWORTHI-
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NESS ABROAD BUT SAID THAT IT WOULD NOT PERMIT ANY IMMEDIATE EASING OF MONETARY POLICY. HOFFMEYER AGREED WITH GOVERNMENT IN UNEQUIVOCAL REJECTION OF MAJOR DEVALUATION OF THE DANISH KRONE. END SUMMARY.

1. CENTRAL BANK GOVERNOR ERIK HOFFMEYER ON AUGUST 10 IN AN INTERVIEW GRANTED INDEPENDENT-FINANCIAL DAILY

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BORSEN COMMENTED UPON PRESENT ECONOMIC SITUATION AND POLICIES.

2. DR. HOFFMEYER STRESSED THAT THE POLITICAL POWER IN DENMARK TODAY RESTS WITH WAGE-EARNERS WHO OVER THE PAST YEARS HAVE INCREASED BOTH THEIR SOCIAL POSITION AND THEIR INFLUENCE BUT HAVE NEGLECTED TO ASSUME THE CORRESPONDING RESPONSIBILITY FOR ECONOMIC POLICY, HENCE THE PRESENT HIGH RATE OF UNEMPLOYMENT. IF WAGE-EARNERS WANTED TO PRESERVE THE ADVANCED LEVEL OF SOCIAL SECURITY,THEY WOULD HAVE TO GIVE SOMETHING IN RETURN IN TERMS OF WAGES.

3. DR. HOFFMEYER THOUGH THAT IF A STRINGENT INCOMES POLICY HAD BEEN INTRODUCED IN 1974-75, THE PRESENT HIGH RATE OF EUNEMPLOYMENT MIGHT HAVE BEEN AVOIDED. HE NOTED, HOWEVER, THAT EVEN IF WAGES MIGHT INCREASE BY 9 PERCENT IN 1977, RATHER THAN BY THE 6 PERCENT STIPULATED IN THE AUGUST 1976 IN-COMES POLICY DECISION, CONCOMITANT PRICE AND TAX RISES WOULD, NEVERTHELESS, RESULT IN SOME MODERATE REDUCTION IN REAL WAGE LEVELS. HE CONSIDERED THIS A POSITIVE DEVELOPMENT IN VIEW OF THE NECESSITY TO REDUCE THE PRESENT RATE OF OVERSPENDING OF 3-4 PERCENT OF GNP, AS REFLECTED IN THE $2 BILLION BALANCE OF PAYMENTS DEFICIT, BUT CALLED FOR BROADER PUBLIC UNDERSTANDING THAT DEMANDS FOR CONTINUED WAGE INCREASES WERE INCOMPATIBLE WITH DEMANDS FOR RE-DUCED UNEMPLOYMENT. DR. HOFFMEYER TOOK A POSITIVE
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STANCE TOWARD SOME SYSTEM OF "ECONOMIC DEMOCRACY" (WORKERS' CO-OWNERSHIP OF INDUSTRY) IN RETURNFOR WAGE RESTRAINTS, PROVIDED THAT THE QUID PRO QUO WOULD BE ACCEPTED BY THE WAGE-EARNERS FROMTHE START.

4. IN VIEW OF THE TARDY INTRODUCTION OF AN INCOMES POLICY, DR. HOFFMEYER AGREED WITH THE NECESSITY FOR THE APPROXIMATELY ONE BILLION DOLLAR FISCAL RESTRAINT PROGRAM WHICH THE GOVERNMENT IS CURRENTLY NEGOTIATING, EVEN IF THE PROGRAM WOULD REDUCE THE BALANCE OF PAY-MENTS DEFICIT BY ONLY $300-400 MILLION YEARLY. HE THOUGHT THAT THE PROGRAM WOULD BE WEEL RECEIVED ABROAD AND SERVE TO PRESERVE DENMARK'S OTHERWISE SENSITIVE CREDIT POSITION. FOR EMPLOYMENT REASONS, HE WOULD NOT RECOMMEND A MORE STRINGENT FISCAL PROGRAM.

5. DR. HOFFMEYER AGREED UNEQUIVOCALLY WITH THE GOVERN-MENT'S REJECTION OF A MAJOR DEVALUATION OF THE DANISH KRONER WHICH, HE SAID, WOULD MERELY BE AN ATTEMPT TO AVOID FACING ECONOMIC REALITIES.

6. DR. HOFFMEYER ALSO REJECTED SOME OF THE MEASURES

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PROPOSED BY VARIOUS POLITICAL PARTIES IN CONNECTION WITH THE CURRENT ECONOMIC POLICY NEGOTIATIONS, SUCH AS DISCRIMINATORY MEASURES AGAINST IMPORTS, SLECTIVE INDUSTRIAL SUBSIDIES, OR GOVERNMENT EXCHANGE RATE GUARANTEES FOR BUSINESS LOANS ABROAD.

7. WITH REGARD TO MONETARY POLICY, DR. HOFFMEYER SAID THAT THE FISCAL RESTRAINT PROGRAM WOULD NOT PERMIT AN IMMEDIATE MONETARY EASING IN THE FORM OF A REDUCTION IN THE HIGH DANISH INTEREST LEVEL. DENMARK HAD VERY LIMITED MOBILITY WITH REGARD TO INTEREST POLICY SO THAT AN INTEREST REDUCTION WOULD HAVE TO AWAIT DEMONSTRATED RESULTS OF THE FISCAL TIGHTENING.
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8. COMMENT. THE CENTRAL BANK GOVERNOR TRADITIONALLY IS RATHER CAUTIOUS WITH REGARD TO STATEMENTS WHICH CAN BE USED IN POLITICAL DEBATES. THE PRESENT INTERVIEW APPEARS TO BE A DELIBERATE EFFORT TO SUPPORT THE GOVERNMENT IS RESISTING PAY-OFFS FOR ITS FISCAL RESTRAINT PROGRAM BOTH TO INDUSTRY AND, MORE PARTICULARLY, TO THE TRADE UNIONS. IN ANTICIPATION OF HIGHER TACES, THE UNIONS ARE VEHEMENTLY OPPOSING FURTHER WAGE RESTRAINT.
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Message Attributes

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Copy: SINGLE
Sent Date: 11-Aug-1977 12:00:00 am
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Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Date: 22 May 2009
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